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SERVICE DATE - FEBRUARY 20, 1998

## SURFACE TRANSPORTATION BOARD

### DECISION

#### STB EX PARTE NO. 290 (SUB-NO. 4) RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: February 9, 1998

We propose to adopt 1.096 (9.6% per year) as the measure of average growth in railroad productivity for the 1992-1996 (5-year) averaging period. The current value of 5.0% was developed for the 1991-1995 period.

Since 1989, the cost recovery procedures have required that the quarterly rail cost adjustment factor (RCAF) be adjusted for long-run changes in railroad productivity. The ICC Termination Act of 1995 continues this requirement (49 U.S.C. 10708, as revised). The long-run measure of productivity is computed using a 5-year moving geometric average.<sup>1</sup>

Productivity growth for the year 1996 is 1.129 (an increase of 11.6% from the prior year) based on changes in input and output levels from 1995. Incorporating the 1996 value with the values for the 1992-1995 period produces a geometric average productivity growth of 1.096 for the 5-year period 1992-1996, or 9.6% per year. This is 4.4% higher than the value developed for the 1991-1995 5-year period currently used. A detailed discussion of our calculations is contained in the Appendix to this decision.

Comments may be filed addressing any perceived data and computational errors in our calculation. Any party proposing a different estimate of productivity growth must, at the time it files comments, furnish the Board with detailed work papers and documentation underlying its calculations. The same information must be made available to other parties upon request.

### ENVIRONMENTAL AND ENERGY CONSIDERATIONS

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

### REGULATORY FLEXIBILITY ANALYSIS

Pursuant to 5 U.S.C. 605(b), we conclude that our action in this proceeding will not have a significant economic impact on a substantial number of small entities. No new regulatory requirements are imposed directly or indirectly on such entities. The purpose of our action in this

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<sup>1</sup> Productivity Adjustment-Implementation, 9 I.C.C.2d 1072 (1993).

proceeding is to update the data used to measure railroad productivity changes. Reporting requirements remain unchanged. The economic impact on small entities, if any, is not likely to be significant within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708, as revised.

It is ordered:

1. Comments are due by 15 days after the date of service.
2. An original and 15 copies must be filed with:

Office of the Secretary  
Case Control Branch  
Surface Transportation Board  
Washington, D.C. 20423

3. Comments must be served on all parties appearing on the current service list.
4. Unless a further order is issued postponing the effective date, the productivity adjustment will become effective 30 days after the date of service.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams  
Secretary

## APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.<sup>1</sup> The annual rate of productivity change is calculated by dividing an output index by an input index.

The input index uses constant dollar-adjusted expenses. The inputs (freight expenses, fixed charges, and contingent interest) are stated on a constant dollar basis using the most recent year as the base, and updating the base by the Series RCR Index published by AAR. Freight expenses, fixed charges, and contingent interest were obtained from railroad Annual Report (Form R-1) data. The constant dollar adjustment factor was calculated by dividing the 1996 RCR index value (263.0) by the RCR index values for 1992 and each subsequent year through 1995, inclusive. Because 1996 is the last year in the trend, no constant dollar adjustment was needed for that year. The calculation of the input indices and values used are shown in Table A.

The 1996 output index was developed from the costed waybill sample, a commonly used data source. The costed waybill sample excludes movements originating in Canada and Mexico and movements lacking sufficient information for the application of unit costs.

Using the costed waybill sample as a base, each movement is assigned to one of the 189 segments or categories used to develop the output index. Segmentation is based on three mileage blocks, seven car types, three weight brackets, and three shipment sizes. The output index is a composite of the year-to-year change in ton-miles for each of the 189 segments weighted by each segment's base-year share of total revenues.

The change in productivity is calculated by dividing the output index by the input index. The multi-year average for the period 1992-1996 is calculated by taking a geometric average. The growth in productivity over the period 1992-1996 is 1.096 (9.6% per year). The input index, the output index, and the annual productivity change are shown in Table B.

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<sup>1</sup> The development and application of the productivity adjustment is explained in the decision in this proceeding found at 5 I.C.C.2d 434.

Table A  
Calculation of Input Indices  
1992-1996

Year	Freight Expense Unadjusted (000) (1)	RCR Indices 1991 - 1996 (2)	Freight Expense Constant Dollars (000) (1996 Levels) (3)	Input Index Column (3) 1996/1991 etc. (4)
1991	29,096,584	230.2	33,242,405	1.142
1992	26,230,797	236.3	29,194,666	1.113
1993	25,331,287	238.1	27,980,380	1.105
1994	26,346,382	241.7	28,668,177	1.088
1995	28,818,781	252.9	29,969,709	1.040
1996	27,356,687	263.0	27,356,687	1.000

Table B  
Comparison of Output, Input, and Productivity  
1992-1996

Year	Output Index (1)	Input Index (2)	Productivity Change Column (1) ÷ Column (2) (3)
1992	1.045	0.878	1.190
1993	1.051	0.958	1.097
1994	1.084	1.025	1.058
1995	1.058	1.045	1.012
1996	1.031	0.913	1.129

The proposed 5-year (1992-1996) productivity trend calculated using a geometric average is 1.096, or 9.6% per year.